

Message Text

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ACTION SCI-06

INFO OCT-01 ARA-16 ISO-00 FEA-02 ACDA-19 CIAE-00 INR-11

IO-14 L-03 NSAE-00 NSC-07 RSC-01 SSO-00 NSCE-00 SS-20

AEC-11 AECE-00 SAJ-01 DRC-01 INRE-00 PRS-01 USIE-00

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O R 062045Z AUG 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 4936

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E. O. 111652: N/A

TAGS: TECH, ENRG, BR

SUBJECT: COMPLETION OF AEC ENRICHMENT CONTRACTING

REF: A. STATE 169743 B. STATE 169744

1. SUMMARY: GOB FONOFF AND ENERGY OFFICIALS REACTED VERY NEGATIVELY TO ANNOUNCEMENT OF CONDITIONAL CONTRACT ALLOCATION FOR BRAZIL. THEY SAID THIS GOES AGAINST UNDERSTANDING REACHED WHEN CONTRACTS SIGNED IN JUNE AND THEY QUESTIONED HOW AEC COULD PROVIDE ADDITIONAL SERVICES IF PLUTONIUM RECYCLE NOT APPROVED. ACTION REQUESTED: DETAILED EXPLANATION OF HANDLING OF BRAZILIAN CONTRACTS FOR USE WITH GOB. END SUMMARY.

2. CONGEN RIO DELIVERED AUGUST 5, ADVANCE COPY OF PRESIDENTIAL STATEMENT ON REFERENCED SUBJECT TO BOTH NUCLEAR ENERGY COMMISSION (CNEN) PRESIDENT HERVASIO CARVALHO AND FURNAS REPRESENTATIVE/CONTRACT NEGOTIATOR DAVID SIMON, AS REQUESTED REFTELS.

3. REACTION OF THOSE BRAZILIAN OFFICIALS TO INFORMATION THAT BRAZIL WILL RECEIVE TWO CONDITIONAL CONTRACTS WAS STRONGLY NEGATIVE.

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TIVE AND CNEN PRESIDENT REQUESTED THAT AMBASSADOR CRIMMINS INTER-

ENE PERSONALLY IN ORDER TO AVOID A SITUATION "WHICH MAY HAVE HIGHLY NEGATIVE REPERCUSSIONS IN BRAZIL." FURNAS REPRESENTATIVE WILL TAKE THE MATTER UP WITH MINISTER OF MINES AND ENERGY IMMEDIATELY. BOTH OF THOSE OFFICIALS STATED, HOWEVER, THAT THEY ARE CERTAIN THAT BRAZIL'S OFFICIAL POSITION ON THE SUBJECT WOULD BE HIGHLY NEGATIVE.

4. CARVALHO AND SIMON STATED THAT BRAZIL'S CONCERN IS BASED ON THE FOLLOWING MAIN FACTS:

A. GOB MET THE AEC DEADLINE WHEN IT SIGNED CONTRACTS, MADE APPROPRIATE DOWNPAYMENT AND WAS ASSURED BY AEC OFFICIALS THAT BRAZILIAN CONTRACTS FITTED WITHIN AEC PRODUCTION CAPACITY.
B. BRAZIL HAS ALREADY STARTED PROGRAMMING CONSTRUCTION OF ANGRA II AND ANGRA III PLANTS. A CONDITIONAL CONTRACT, WHICH MIGHT BE TERMINATED IF A FINDING PERMITTING PLUTONIUM RECYCLE WERE NOT MADE, MIGHT NOT ONLY MAKE THE WHOLE PROGRAM COLLAPSE, BUT ALSO BRING ABOUT HEAVY FINANCIAL LOSSES FOR BRAZIL.

5. THEY CANNOT FULLY UNDERSTAND THE MEANING OF THE PHRASE IN THE PRESIDENTIAL STATEMENT THAT QUOTE THE PRESIDENT ASSURES HOLDERS OF CONDITIONAL CONTRACTS THAT THE UNITED STATES WILL, IN ANY EVENT, FULFILL THE FUEL REQUIREMENTS IN THOSE CONTRACTS FROM U.S. SUPPLY SOURCES UNQUOTE WHEN A CLAUSE IN CONDITIONAL CONTRACTS WILL PROVIDE THAT THEY CAN BE TERMINATED IN THE CASE DESCRIBED IN 4.B ABOVE. THOSE GOB OFFICIALS STATED THAT, IN THEIR ESTIMATION, A NEW COMMERCIAL ENRICHMENT PLANT WOULD CURRENTLY TAKE BETWEEN 6 AND 7 YEARS TO BE BUILT AND THEREFORE THEY CAN ONLY INTERPRET THE EXPRESSION QUOTE IN ANY EVENT UNQUOTE AS MEANING QUOTE AT SOME TIME IN THE FUTURE UNQUOTE WHICH THEY THINK IS VERY VAGUE. CNEN PRESIDENT FEARS THE NEW AEC DECISION MAY STRONGLY AFFECT THE CURRENT AND FUTURE NUCLEAR POLICY OF BRAZIL AND MAY EVEN FORCE GOB TO ADOPT A DIFFERENT LINE IN ITS FUTURE REACTORS.

6. FOLLOWING EMBASSY PRESENTATION TO FONOFF, HEAD OF MINISTRY'S ECONOMIC DEPARTMENT, NOGUEIRA BATISTA, RAISED SUBJECT WITH AMBASSADOR AND, ON AUGUST 6 HAD DISCUSSION WITH EMBOFF. BATISTA ASKED FOR CLARIFICATION OF CONTRACT ALLOCATION TO BRAZIL BEING ON CONDITIONAL RATHER THAN STANDARD BASIS (PARA 5, REFTTEL A). HE SAID THAT AT TIME OF SIGNING IN JUNE, BRAZILIANS WERE INFORMED LIMITED OFFICIAL USE

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THAT AEC HAD ALREADY COMMITTED ENRICHMENT SERVICES FOR ONLY 263 THOUSAND MEGAWATTS AND THAT THERE WAS NO INDICATION THAT CONTRACTS WERE NOT FIRM. BATISTA ALSO NOTED THAT BRAZIL HAD ALREADY MADE DOWNPAYMENTS ON CONTRACTS. EMBOFF RESPONDED THAT PRESIDENTIAL STATEMENT AND AEC INTENTION TO FULFILL ALL FOREIGN CONTRACTS EFFECTIVELY ELIMINATED DISTINCTION BETWEEN STANDARD AND CONDITIONAL CONTRACTS. BATISTA SAID HE APPRECIATED THAT STATEMENT WAS INTENDED TO AVOID UNCERTAINTIES BUT THERE WAS NO

INDICATION OF HOW AEC COULD PROVIDE ADDITIONAL SERVICES IF PLUTONIUM RECYCLING NOT APPROVED. BATISTA SAID AEC POLICY IS OF VITAL IMPORTANCE TO BRAZIL'S INTENTION TO CONTINUE ENRICHED REACTOR PROGRAM AND ASKED EMBASSY TO SEEK CLARIFICATION. DURING CONVERSATION, EMBOFF HAD STRONG IMPRESSION THAT BATISTA SUSPECTED THAT BRAZILIAN CONTRACTS MAY HAVE BEEN RELEGATED TO END OF QUEUE IN SPITE OF EARLIER ASSURANCES AND DOWNPAYMENT.

7. LATE NOTE: THE MINISTER OF MINES AND ENERGY HAS JUST CALLED THE AMBASSADOR ASKING HIM TO RECEIVE THE PRESIDENT OF FURNAS TOMORROW.

8. ACTION REQUESTED: WOULD APPRECIATE DETAILED EXPLANATION OF HANDLING OF BRAZILIAN CONTRACTS FOR USE WITH GOB. CRIMMINS

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